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TAGS: ECON RS
SUBJECT: Russia's Plan for Long-Term Socio-Economic Development through 2020

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Summary
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¶1. (U) The Ministry of Economic Development and Trade (MEDT) released its program for Russia's socio-economic development through ¶2020. The policy document, expected to be finalized in May, outlines the GOR's plans for economic diversification away from present levels of reliance on natural resources toward an innovation economy. MEDT's program includes increased spending on education and health care as key parts of Russia's ongoing economic modernization. End Summary.

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Plan Background
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¶2. (U) On March 20, the Ministry of Economic Development and Trade (MEDT) published its long-term socio economic development program through 2020, which is expected to be a roadmap for President-elect Dmitry Medvedev.

¶3. (U) Since July 2006, when MEDT was tasked at the State Council's meeting to lead a task force responsible for drafting the program, the draft has undergone significant revisions. MEDT's most recent version of the program focuses on an "innovation economy scenario" in line with Medvedev's February Kasnoyarsk speech on the four "I"s. Senior government officials and leading Russian business associations have discussed the draft development program extensively. The Russian Union of Industrialists and Entrepreneurs (RUIS) has sharply criticized the document for presenting only vague objectives and no concrete steps to achieve stated development goats.and is drafting a detailed critique. The policy document is expected to be finalized in May.

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Program Objectives
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¶4. (U) The program's key objective is to transform Russia into a global economic leader by: creating an innovation economy; harnessing opportunities for Russia's existing industrial capabilities; encouraging the formation of competitive high-tech sectors; diversifying the overall economy away from natural resource extraction; developing human capital and democratic institutions; and decreasing regional economic disparities. MEDT's program will involve the private sector in formulating policies, modernizing industries and addressing social problems.

¶5. (U) Under the program's "innovation economy scenario," Russia would become one of the five largest economies by 2015-2020. This implies that GDP calculated in purchasing power parity (PPP) terms would rise from the current level of USD 8,860 per capita to an

estimated USD 25,000 per capita in 2020.

¶6. (U) Under this scenario, more than half of Russia's population will be part of the middle class by 2020 (from 20-30 percent currently), and average monthly wages will surge from USD 526 in 2007 to USD 2,700 in 2020. The pension-to-wage ratio is expected to increase from 25 percent in 2007 to 30 percent by 2020. The GOR expects that life expectancy will rise to 75 years and that total population will increase to 145 million from the current 142.2 million. Successful implementation of housing reform would translate into 100 square meters (1,077 square feet) of living space for every family of three.

¶7. (U) Government spending on education and health services would catch up with industrialized countries. Spending on education would increase from 4.6 percent of GDP in 2006 to 5.5-6 percent of GDP in 2020, and on health from 3.9 percent of GDP in 2006 to 6.5-7 percent of GDP in 2020.

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Human Capital Development
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¶8. (U) Demographic Policy. Lower birth rates and higher death rates have reduced Russia's population 0.5 percent annually, or about 750,000 to 800,000 people per year during the late 1990s and most of the this decade. The program warns that Russia's 2007 population of 142.2 million could fall below 133 million by 2030. The program outlines several policy initiatives that would increase the country's birth rate and life expectancy while reducing infant mortality. As one measure to address population issues, the program recommends providing economic incentives to qualified migrants from other countries.

¶9. (U) Health Care Modernization. The program calls for a "new

health care system" that would be based on technological innovations, improved efficiency in administration, and increased professional standards. One key challenge is ensuring equal access to quality health care, especially in the regions, at a reasonable cost. The GOR envisions that by 2020, budget spending on health care would reach 7 percent of GDP.

¶10. (U) Education Improvements. While lacking specifics, the program acknowledges that reforming the country's current education system to meet the needs of an innovation economy will require not only hiring the best teachers and administrators but also ensuring that schools, research institutes, and universities have access to the resources to provide high-quality instruction.

¶11. (U) Labor Market. MEDT expects that in the 2007 - 2020 period, Russia's labor force will shrink by 10 percent. As a countermeasure, the program describes policy initiatives to stimulate inter-regional labor mobility, to increase labor productivity (by 6.7 percent annually in 2011-2015 and by 7.5 percent annually in 2016-2020) and to encourage new immigration while increasing the upper limit for migrant groups currently authorized by law.

¶12. Housing Affordability. The government has pledged to increase Russia's housing stock to about 28 square meters (300 square feet) on average per person by 2015 and about 35 square meters (380 square feet) per person by 2020. The government has also pledged to replace all of Russia's dilapidated housing stock during this period. To achieve this goal, the GOR will use a combination of incentives and public-private partnerships to increase housing construction from the current activity level of 50 million square meters (540 million square feet) per year to 170 million square meters (1.8 billion square feet) per year in 2020.

¶13. Social Security Development. MEDT's program recommends a revised welfare approach to assist the country's most vulnerable segments of the population: elderly pensioners, veterans, infants and children, expectant mothers, families with more than one child, invalids, and people with disabilities.

¶14. (U) Pension System. According to the program, the pension-to-wage ratio, a ratio of a person's pension to his former

wage, will reach 30 percent, from the current 25 percent, by 2020. (N.B. The pension system is to be supported by the National Welfare Fund, an SWF created this year out of the Stabilization Fund, which will be primarily supported by revenue from the oil and gas sector.)

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## Institutional Development and Economic Stability

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¶15. (U) Russia's long-term monetary and fiscal policy goals are aimed at sustaining annual GDP growth of 6-7 percent through 2020 and reducing the annual inflation to 4.5 percent by 2015 and to 3 percent by 2020. At the same time, the program notes that the budget will play an increasingly important role in financing "strategically important social and economic programs and eliminating infrastructure bottlenecks." Budget deficits, however, should not exceed 1 percent of GDP. Loosening fiscal policy would put additional pressure on the government's ability to meet its inflation targets.

¶16. (U) The GOR expects the country's trade balance to continue to fall, reaching deficit by 2010. An expected decline in the price of oil, in conjunction with already-stagnating production and a reduction in Russia's exportable surplus, and growing imports would lead to a trade deficit of USD 110 billion in 2018-2020, or 2 percent of GDP. In turn, the trade deficit will keep the ruble's real effective exchange rate stable in 2011-2015. MEDT forecasts the ruble will resume its appreciation after 2015, as a result of the expected trade deficit and Russia's GDP catching up to other developed economies.

¶17. (U) The program emphasizes the development of Russia's financial sector as a principal driver of economic growth and outlines key target indicators:
--Corporate lending to increase from current 30 percent of GDP to 75 percent of GDP in 2015 and 85 percent of GDP in 2020;
--Share of commercial bank financing to increase from 11 percent in 2006 to 25 percent in 2020 (state-owned banks would contribute most to this growth);
--Capitalization of Russian companies to double from today's level of USD 1.4 trillion (more than 100 percent of GDP) to 200 percent of GDP by 2020;
--Assets of pension funds to increase from 2.5 percent of GDP in 2006 to 20 percent of GDP in 2020.

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## Increasing National Competitiveness

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¶18. (U) Russia's economic growth will be modeled on an "innovative industrial policy" in which the State will play a leading role. A combination of state programs encouraging competition and entrepreneurship, state support of targeted projects, and public-private partnerships will be pursued. Protection of intellectual property rights, information technology parks, special economic zones, and business incubators are key pillars in the MEDT program to improve the competitiveness of Russian businesses.

¶19. (U) Currently, Russia's information technology sector lags behind other BRIC countries, according to a July 2007 Economist Intelligence Unit ranking on competitive IT environments. Sergei Chemezov, chairman of the state-controlled Russian Technologies Corporation, said earlier this year "if Russia doesn't bridge the gap by 2015, then in the near future, our foreign competitors may not only push Russia out of the global high-tech market but also the domestic market."

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## International Trade Policy

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¶20. (U) MEDT's trade outlook is based upon the long-term goal of making Russia a leading producer of high-tech goods. The program targets Russia's share of global GDP (on a purchasing-power parity basis) to grow from the current 3.1 to 3.8 percent by 2015 and 4.3 percent by 2020. Russia's annual exports would rise from USD 304 billion in 2007 to USD 700 billion in 2020.

¶21. (U) The GOR would actively protect the interests of domestic firms and encourage their expansion internationally, through export promotion and government assistance in investing abroad. It also commits to providing transparent and clear rules for foreign investments in Russia's strategic sectors.

¶22. (U) MEDT's trade program underscores the importance of a cooperative working relationship with the U.S. on trade issues. Business-to-business cooperation and open dialogue between the two governments are identified as ways to import technology and experience needed to forge an innovation economy. The MEDT highlights cooperation in energy, aerospace, and high-technology as areas for increased interaction, dialogue, and exchanges.

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Regional Development
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¶23. (U) Russia's new regional economic policy will focus on decreasing disparities and creating new centers of regional economic growth by taking advantage of each region's competitive advantages.

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Reform Phases
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¶24. (U) The plan envisions three phases of reforms to create an innovation economy: 2008-2012 will be the "preparation" phase; 2013-2017 will be the "breakthrough" phase; and 2018 and beyond the "growth" phase.

¶25. (U) Phase I Preparation (2008 - 2012). During the first five years, the government will focus on enhancing existing competitive advantages and creating institutional capacity for the breakthrough phase.

¶26. (U) During this phase, the GOR would begin to invest heavily in medical education and to increase funding for health care services nationwide. New education standards take effect. Junior and technical colleges begin undergraduate degree training for new students. Construction of fifteen university campuses begins and Russia's education curricula begin garnering international recognition.

¶27. (U) Phase I Key Indicators (cumulative):
--GDP Growth: 36 percent
--Labor Productivity Growth: 37-39 percent
--GDP's Decreased Energy Reliance: 16-17 percent
--Real Disposable Income Growth: 48-50 percent
--Capital Investment Growth: 67-70 percent
--Research and Development Spending: 2 percent of GDP
--Education Spending: 5-5.2 percent of GDP
--Health Care Spending: 5-5.3 percent of GDP

¶28. (U) Phase II, Breakthrough (2013 - 2017). During 2013-2017,

the economy begins to develop new technologies, creates a number of new industries and transforms traditional ones.

¶29. (U) As an example, in the health care system, outpatient clinics and hospitals start to compete for patients, and prevention becomes the standard of care. The mortality rate decreases 30-50 percent and high-tech medical treatment becomes more widely available. Doctors and teachers salaries begin to match those in the commercial sector.

¶30. (U) Phase II Key Indicators (cumulative):
--GDP Growth: 37-39 percent
--Labor Productivity Growth: 42-44 percent
--GDP's Decreased Energy Reliance: 18-20 percent
--Real Disposable Income Growth: 37-40 percent
--Capital Investment Growth: 65-68 percent
--Research and Development Spending: 3.3 percent of GDP
--Education Spending: 5.3-5.7 percent of GDP
--Health Care Spending: 5.8-6 percent of GDP

¶31. (U) Phase III: Innovation Economy (2018 and beyond). The

program envisions that after 2018, the key goal will be to maintain Russia's place in the world economy and continue its innovation-driven economic growth.

¶32. (U) Phase III Key Indicators (cumulative):
--GDP Growth: 19-22 percent
--Labor Productivity Growth: 21-24 percent
--GDP's Decreased Energy Reliance: 9-12 percent
--Real Disposable Income Growth: 20-23 percent
--Capital Investment Growth: 30-33 percent
--Research and Development Spending: 4 percent of GDP
--Education Spending: 5.5-6 percent of GDP
--Health Care Spending: 6.7-7 percent of GDP

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